

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01

DRC-01 /193 W

----- 120470

P R 131150Z DEC 73

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 7503

INFO USMISSION GENEVA

USMISSION USEC BRUSSELS

C O N F I D E N T I A L MADRID 7352

E.O. 11652: N/A

TAGS: EAGR ETRD SP

SUBJECT: SOYBEANS; VARIABLE LEVIES; "REBATE" SYSTEM

REF: MADRID 7239; STATE 237249

1. EMBOFF RECEIVED A CALL FROM ALBERTO CERCOS, TECHNICAL SECRETARY GENERAL OF THE MINISTRY OF AGRICULTURE, TO CLARIFY FURTHER RE THE GOS SYSTEM TO RECOVER THE LOSS IT SUSTAINED IN BUYING SOYBEANS AND SOYBEAN MEAL AT WORLD MARKET PRICES AND RESELLING ON THE DOMESTIC MARKET AT A LOWER PRICE LEVEL. THIS IS THE SYSTEM DESCRIBED IN PARAGRAPH 2 OF REF EMBTEL AND WHICH HAS BEEN REFERRED TO IN PREVIOUS COMMUNICATIONS AS THE "REBATE" SYSTEM.

2. OBVIOUSLY READING FROM A DOCUMENT PREPARED FOR THE PURPOSE, CERCOS DEFINED THE PRESENTLY OPERATIVE SYSTEM AS A "QUASI-TAX LEVY (EXACCION PARAFISCAL) FOR THE MAINTENANCE OF THE LEVEL OF DOMESTIC PRICES DURING A DETERMINED PERIOD". WHEN HE WAS ASKED WHAT THE

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"DETERMINED PERIOD" WAS HE RESPONDED "UNTIL THE CREDIT

WAS COMPLETELY RETURNED". CERCOS FURTHER AMPLIFIED BY SAYING THAT IN HIS OPINION THIS WILL BE A MUCH SHORTER PERIOD THAN THE FOREGOING MIGHT OTHERWISE INDICATE, PROBABLY ENDING SOME TIME TOWARDS THE END OF THE FIRST QUARTER OF 1974 WHEN IT IS HOPED A BUDGETARY ALLOCATION WILL BE MADE TO COVER THE LOSS.

3. CERCOS ALSO SAID THAT 7 BILLION (US\$125 MILLION) RATHER THAN 9 BILLION PESETAS WAS THE TOTAL AMOUNT OF THE CREDIT THE GOVERNMENT EXTENDED AND FOR WHICH IT IS SEEKING REIMBURSEMENT. OF THE 7 BILLION, HE SAID 2 BILLION HAS ALREADY BEEN RECOVERED LEAVING A BALANCE OF 5 BILLION IN GOVERNMENT CREDITS OBTAINED FROM THE BANK OF SPAIN FOR THE SOYBEAN AND SOYBEAN MEAL PURCHASES AND PAYMENTS TO THE SOYBEAN CRUSHERS WHICH STILL HAS YET TO BE RECOVERED. HE REITERATED THE OPINION THAT SOME OF THIS WILL HAVE TO BE ACCEPTED AS AN UNRECOVERABLE LOSS TO BE EVENTUALLY ABSORBED IN THE GOVERNMENT'S BUDGET. THIS LATTER, THOUGH, DEPENDS ON FINANCE MINISTRY COOPERATION.

4. THE 7 BILLION PESETAS, HE SAID, DERIVED FROM TWO TYPES OF OPERATIONS. IN PART IT REPRESENTS THE DIFFERENCE BETWEEN THE COST OF THE GOS PURCHASE (SUBSEQUENT TO THE IMPOSITION OF U.S. EXPORT CONTROLS) OF 400,000 TONS OF SOYBEAN MEAL AT VERY HIGH PRICES ON THE WORLD MARKET AND THE LOWER 20 PESETA PER KILO DOMESTIC PRICE AT WHICH IT WAS SOLD TO THE END-USERS IN SPAIN AS PART OF THE GOVERNMENT POLICY TO MAINTAIN PRICE STABILITY. THE OTHER PORTION OF THE 7 BILLION PESETA CREDIT NOT ACCOUNTED FOR IN THE ABOVE TRANSACTION WAS THE RESULT OF GOVERNMENT PAYMENTS TO THE CRUSHERS TO COMPENSATE THEM FOR LOSSES INCURRED IN THEIR EARLIER SALES OF SOYBEAN MEAL MADE TO THE END-USERS AT THE BELOW-WORLD-MARKET LEVEL GUARANTEED DOMESTIC PRICES (RANGING FROM 12 TO 20 PESETAS PER KILO OVER THE PERIOD OF FEBRUARY TO JULY 1973) REQUIRED BY THE GOS.

5. THE PURCHASE OF THE 400,000 TONS OF SOYBEAN MEAL AT THE EXTREMELY HIGH PRICE PREVAILING LAST SUMMER WAS ATTRIBUTED TO JOSE LUIS LUQUE, DIRECTOR OF SENPA. HE WAS SAID TO HAVE MADE THIS PURCHASE "ABOUT THE SAME TIME
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AS" HIS "EDUCATIONAL" TRIP TO THE UNITED STATES WHEN HE VISITED THE CHICAGO COMMODITY EXCHANGE, "STUDIED" THE FUTURES MARKET, AND ALSO CALLED ON SECRETARY BUTZ. ACCOMPANYING LUQUE AND ORGANIZER OF THE TWO-WEEK LONG TRIP (AND PERHAPS THE PURCHASE), WAS FELIPE DE LOS TOYOS, THE SPANIARD WHO MANAGES MERRILL LYNCH'S INTERESTS IN SPAIN. (INCIDENTALLY, DE LOS TOYOS IS VERY WELL-INFORMED OF ALL ASPECTS OF THE ENTIRE MATTER, INCLUDING THE CURRENT

QUESTION RE A POSSIBLE GATT COMPLAINT. HE SAID THAT MUCH MORE THAN THE 5 OR 7 BILLION PESETAS MENTIONED ABOVE IS INVOLVED).

6. IT IS BECOMING INCREASINGLY CLEAR FROM OUR CONVERSATIONS WITH ALL OUR GOVERNMENT CONTACTS THAT THERE IS AN INTENSE DESIRE TO AVOID A CONFRONTATION IN GATT ON THIS ISSUE, OR AT LEAST THAT THERE SHOULD BE AMPLE NOTICE WELL IN ADVANCE OF OUR INTENTIONS RE AN ARTICLE XXIII CONSULTATION. OBVIOUSLY THE GOS WOULD LIKE TO FIND A FORMULA THAT WOULD PERMIT THEM A LOW-PROFILE AND RELATIVELY PAINLESS WAY TO MEET THEIR GATT OBLIGATIONS ON THE ONE HAND AND ABSORB THE BUDGETARY IMPACT OF THE CONTROVERSIAL HIGH-PRICE SOYBEAN MEAL PURCHASES MADE LAST SUMMER ON THE OTHER. WE WOULD EXPECT GOS TO SEEK SOME WAY TO COUNTERCLAIM IF TAKEN TO GATT SINCE THEY CLEARLY BLAME U.S. EXPORT CONTROL ACTIONS FOR SUBSTANTIAL PART OF THEIR EXPENDITURES IN BUYING SOYMEAL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SOYBEANS, TARIFF SCHEDULES, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MADRID07352
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS MONTILLOR
Errors: N/A
Film Number: n/a
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731227/aaaaatz.tel
Line Count: 133
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: MADRID 7239; STATE 237249
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 06 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Sep-2001 by freemaal>; APPROVED <06-Nov-2001 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOYBEANS; VARIABLE LEVIES; "REBATE" SYSTEM
TAGS: EAGR, ETRD, SP
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005